



**STATE BOARD OF EQUALIZATION**

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September 17, 1991

Mr. D--- W---  
W--- S--- T-Shirt Co.  
XXXX --- Dr., Suite XX  
---, California XXXXX

Re: SR – XX-XXXXXX

Dear Mr. W---:

This is in response to your letter regarding the application of sales tax to your business of screen printing. You state:

“I own a screenprinting company, and we print on t-shirts, hats, jackets, sweats, bags, and bumper stickers. I know that when I purchase blank goods and print on them I must charge sales tax or get the customers resale number on a singed card and kept on file. The confusion that I’m having and would like a ruling on cover several areas.

“First, if a customer brings in his own goods and I charge him a printing fee, which includes labor and materials, am I required to charge sales tax on the printing fee?

“Second, when a customer brings in his own goods I also charge a setup fee which includes labor and materials for preparing the screens. Am I required to charge sales tax on screen setup fees? Keep in mind that I have already paid sales taxes on all materials used in printing and screen preparation. This includes inks, screen mesh, and screen emulsion.

“Thirdly, if a customer...needs a job done in a hurry usually within 24 to 72 hours I charge a rush fee. Am I required to charge sales tax on these fees?

Finally, if I purchase artwork from a freelance artist and charge the customer for the artwork, am I required to charge sales tax on the artwork?"

Sales tax applies to your retail sales in California. (Rev. & Tax. Code § 6051.) "Sale" is defined to include the "producing, fabrication, processing, printing, or imprinting of tangible personal property for a consideration for consumers who furnish either directly or indirectly the materials used in the producing, fabricating, processing, printing, or imprinting." (Rev. & Tax. Code § 6006(b).) When you screenprint onto an unused t-shirt brought by your customer, you are regarded as fabricating the finished, screenprinted t-shirt. This is a sale and your charges are subject to sales tax unless your customer will sell that screenprinted t-shirt without using it. You may purchase the materials incorporated onto the t-shirt (e.g., the ink) extax for resale. If you paid sales tax reimbursement or use tax when purchasing materials incorporated into the final product, you may take a tax-paid purchases resold deduction as discussed in Regulation 1701, a copy of which is enclosed.

When you screenprint onto a used t-shirt, you are regarded as repairing that t-shirt. The application of sales tax to repairs is discussed in Regulation 1546, a copy of which is enclosed. If you separately state your charges for materials incorporated onto the t-shirt, you are regarded as the retailer of those materials and sales tax applies to those material charges. If you do not separately state the charge for materials but the retail value of those materials is more than 10 percent of your total charge, then you are also regarded as the retailer of such materials. When you are regarded as a retailer of materials, you may purchase them extax for resale, or if you have paid sales tax reimbursement or use tax, you may take a tax-paid purchases resold deduction. The remainder of your charges for the repairs would not be subject to sales tax. When you perform repairs and are not regarded as the retailer as discussed above, you are the consumer of all materials furnished in connection with the repairs. Sales or use tax applies to your purchase of such materials or use tax applies to your use of them. When you are regarded as a consumer of such materials, no sales tax applies to your charges to your customer. For the remainder of this opinion, I assume that you are screenprinting onto unused t-shirts.

When you make a sale at retail, your entire charge is subject to sales tax with no deduction for the cost of materials used, labor or service costs, or any other expenses. Your setup is merely a step in your fabrication of the final product. You may not deduct a setup fee from the charges subject to tax. The same rule is applicable for your rush fee. This is an additional fee for your sale of tangible personal property and is included in your taxable gross receipts. As noted above, if you have paid sales tax reimbursement or use tax on materials physically incorporated into the finished t-shirt, you may take a tax-paid purchases resold deduction. When you pay sales tax reimbursement or use tax with respect to the other property you use in your business (such as the screen mesh), this is simply an overhead expense which may not be deducted from your taxable gross receipts.

With respect to your final question, it is not entirely clear what type of artwork you are purchasing. If the tangible artwork obtained from the artist were physically attached and incorporated onto the t-shirt, you would be regarded as selling that artwork to your customer. In such circumstances, you could purchase the art from the artist extax for resale. Sales tax would apply to your charges to the customer. However, it appears much more likely that the artwork purchased from the artist is merely the design which will form the basis of the screenprinting to be applied to the t-shirt and that you do not physically attach the actual tangible art from the artist onto the t-shirt. Assuming this is the case, this is merely another expense of your business that may not be deducted from your taxable gross receipts.

If you have further questions, feel free to write again.

Sincerely,

David H. Levine  
Senior Tax Counsel

DHL:cl

Enclosures

bc: --- District Administrator